UBAM – Multifunds allocation 30, 50, 70

Quarterly Comment | Q1 2021

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Market Comment

- The financial markets continued to reflect investor optimism about the upturn in economic output and corporate earnings. For the first quarter of 2021, the S&P 500* posted a return of 6.05% and hit new all-time highs. The technology sector underperformed, which meant that European markets fared even better: the MSCI Europe* returned 8.35% with strong gains for both cyclical and defensive stocks. However, many emerging markets lost ground in March, usually for country-specific reasons. For example, the Chinese and Turkish markets both fell 6% during the month and the MSCI Emerging Markets* in USD finished the quarter with a performance of 2.29%.
- Investors were very optimistic at the turn of the year, but quickly saw several risks appear on their radar screens. Investor sentiment deteriorated from midJanuary onwards because of the spread of new coronavirus variants, slow vaccination roll-outs in Europe and the possibility that the new US president's stimulus package would be reduced in size. Observers were also concerned about extreme price movements in some stocks, driven by hordes of retail investors. In the end, most equity markets fell slightly during January, although some large Asian markets strongly outperformed.
- In February, in the US, many economic indicators exceeded expectations, reflecting the rebound in activity. Generally, as the vaccination roll-out progressed and economies started opening up again. In the eurozone, indicators ticked up. While consumer confidence was being undermined by the slow progress of the vaccination campaign and the protracted lockdown, the industrial sector took heart from the prospect of economies reopening. The UK remained resilient despite the strict lockdown, and sentiment indicators recovered with the promise of a gradual lifting of restrictions. As for China, while it remained ahead of developed economies in terms of economic recovery, the traditional lunar new year volatility caused a dip in manufacturing and services sentiment.
- In March, the economic outlook continued to improve in the US, with sharp increases in business confidence – in both manufacturing and services – and consumer sentiment. Joe Biden's USD 1.9 trillion stimulus plan, which includes extensive support for households, was finally passed and a USD 2.25 trillion infrastructure plan was presented at the end of the month. In the eurozone, confidence levels in manufacturing and services rebounded even though tougher restrictions on people's movements were introduced during the month. In the UK, confidence increased sharply because of the rapid vaccine rollout and the plan to reopen the economy. In China, the authorities announced a minimum growth target of 6% along with a medium-term strategy that emphasises consumer spending and self-sufficiency in high-tech sectors. China's dialogue with the US remained tense, and the US kept its sanctions in place.

Sources: UBP, Bloomberg Finance LP.

Performance Review

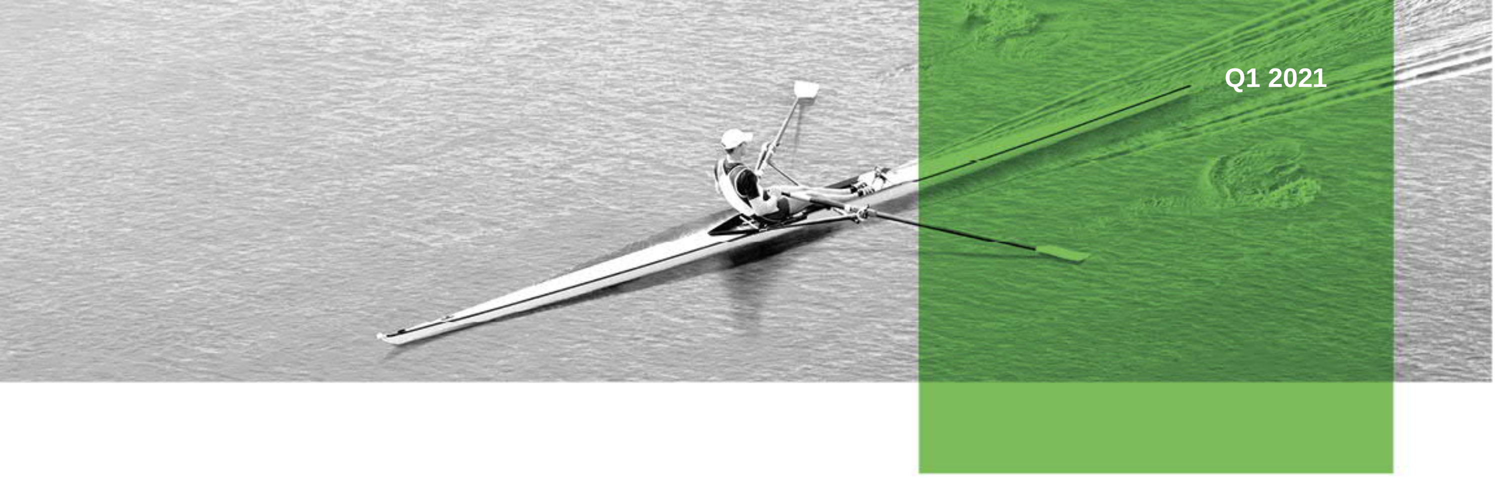
- Overall performance from the funds (30, 50, 70) was slightly negative over the first quarter but the strategies continues to perform well over the years.
- The equity positioning hurt over the month of March, while Fixed Income was neutral. The overall performance of the fund remains positive on a YTD basis, mainly due to manager selection effect.
- On the equity side, our Emerging bucket, which has a tilt towards Asia and China detracted most from performance in March, continuing the reversal that started mid-February following a period of strong performances. Other regions where more neutral. With growth stocks continuing to see headwinds globally, our more balanced style positioning split between value and growth managers helped neutralise this impact and even bring some outperformance in the US.
- Our fixed income bucket was marginally above the Barclays global aggregate benchmark: our exposure to inflation linked bonds contributing over the month.

Portfolio Activity

- During the quarter, we kept on increasing our position in thematic managers. We continue to back our blend of growth and value strategies as they continued to perform well. It was particularly the case in Q4 2020.
- Within the portfolio it is important to stress its emphasis in this regard. From an active versus passive discussion point, this deflation/recessionary trade has prompted an immense narrowing within market cap weighted indices as those benefiting from the work-from-home situation and the transition to a digital economy has propelled the five largest US Tech companies to become even bigger constituents within broad market indices. The top 5 stocks account for 24% of the S&P 500 Index for instance. In a sign that this trend may have reached an inflection point, breadth has changed markedly over the fourth quarter with equal weight outperforming cap weighted indices, the recovery is tentatively spanning out. The longer this continues, the easier it should be for active funds to outperform their passive counterparts.

- No major changes.

Sources: UBP, Bloomberg Finance LP.



Outlook

- Growth expectations were revised higher after US President Biden's fiscal package was passed through Congress, whilst high frequency data released during the quarter was also impressive. For example the March jobs report in the US saw an almost 1mn increase in payrolls, whilst global PMIs rose to a cycle high and led investors to price in more hawkish policy from the Fed in particular over the coming years. Despite this, central banks continued with their dovish tone, emphasising their commitment to maintain accommodation until economies have fully recovered from the pandemic. As we look ahead to Q2, the focus will be on whether vaccine distribution will allow economies to begin reopening, or if any vaccine rollout delays or virus mutations will slow reopening plans. Central banks will also be closely tracked to see if they begin to react to the consistent strength in the data and start guiding towards a less accommodative policy stance down the line.

- In the eurozone, slow vaccination rollouts has contributed to the 3rd wave of the pandemic in progress. After contracting in Q1, only modest growth is expected in Q2 and a more significant rebound is postponed to Q3, when more vaccines will become available.

- Fiscal support should serve as the primary economic policy driver, though with ongoing support from monetary policy. We expect central bank strategies to begin diverging more meaningfully. The Fed is seeking for strong growth and high inflation, but will not act to curb rising bond yields, except if financial conditions deteriorate. The ECB increased its bond purchases to decorrelate European bond yields from US ones, due to delayed recovery and moderate medium-term inflation prospects. The Chinese PBOC has adopted a tighter stance, while in Turkey and Brazil banks may hike rates further..

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